

## Message Text

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ACTION EB-04

INFO OCT-01 SS-04 EUR-03 NSC-04 CEA-01 FRB-03 INR-01

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 4402

TREASURY DEPT WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 04552

LIMDIS GREENBACK

E.O. 11652: XGDS-1

TAGS: EFIN, UK

SUBJECT: POSSIBLE TOPICS FOR DISCUSSION DURING PRIME

MINISTER CALLAGHAN'S VISIT

SUMMARY: TREASURY SAYS THE NOSSITER/WASHINGTON POST ARTICLE (THAT THE UK WILL PROPOSE A 5-NATION PLAN FOR MAJOR INTERVENTION TO HALT THE SLIDE OF THE DOLLAR) IS WITHOUT SUBSTANCE. SUCH A PROPOSAL DOES NOT REPRESENT HMG POLICY. END SUMMARY

1. TREASURY REP CALLED ON KEN COUZENS, SECOND PERMANENT SECRETARY, HMTREASURY, TO DISCUSS THE SUBSTANCE OF THE NOSSITER/WASHINGTON POST ARTICLE CLAIMING THAT THE PRIME MINISTER AND HIS AIDES HAVE SKETCHED OUT A BLUEPRINT POSITION THAT EMBRACES GERMANY, JAPAN, FRANCE, BRITAIN AND THE U.S. COUZENS SAID THE ARTICLE DOES NOT REPRESENT HMG POLICY.

2. CHOOSING HIS WORDS CAREFULLY, HE SAID VIEWS IN THE ARTICLE MIGHT REPRESENT THOSE OF A PARTICULAR MINISTER IN HMG (READ HAROLD LEVER) BUT IT CERTAINLY DOES NOT REPRESENT THE VIEWS OF HMG. A TARGET ZONE FOR THE DOLLAR IS  
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NOT A UK OBJECTIVE. COUZENS WOULD NOT BE DRAWN FURTHER THAN THIS, SAYING HE WAS UNDER POINT BLANK INSTRUCTIONS NOT TO DISCUSS THE SUBSTANCE OF THE SUMMIT. AFTER THE MARCH 20 EC FINANCE MINISTERS' SESSION IN BRUSSELS, CHANCELLOR HEALEY IS QUOTED IN THE FINANCIAL TIMES AS EXPRESSING "DISSATISFACTION WITH THE 'UNCOORDINATED' WAY IN WHICH THE RECENT US-GERMAN CURRENCY ARRANGEMENTS WERE

ASSEMBLED. HE POINTED OUT THAT THE PACKAGE HAD FAILED TO IMPRESS THE FOREIGN EXCHANGE MARKETS AND ARGUED THAT, TO HAVE MORE IMPACT, FUTURE MOVES SHOULD INVOLVE WIDER INTERNATIONAL COOPERATION AND BE SEEN AS PART OF AN OVER-ALL PLAN." RECALL THAT IN THE PAST, UK HAS CHIDED THE U.S. FOR OTHER BILATERAL APPROACHES, E.G., TO JAPAN ON TRADE MATTERS.

3. A SENIOR CONTACT AT THE BANK OF ENGLAND WHO SHOULD KNOW THE FACTS, SAID HE IS TOTALLY UNAWARE OF ANY UK PLAN FOR MULTILATERAL INTERVENTION OF THE TYPE SPELLED OUT IN THE NOSSITER ARTICLE. NOSSITER HAD APPARENTLY SPOKEN TO LEVER WHO IS "A LAW UNTO HIMSELF." OF COURSE SHOULD THE PRIME MINISTER DECIDE ON SUCH A COURSE OF ACTION A PHONE-CALL TO THE BANK COULD SET THE WHEELS IN MOTION BUT "SOME OF THE WHEELS WOULD HAVE SQUARE EDGES."

4. TREASURY REP'S OWN IMPRESSION IS THAT SUCH SUBSTANCE AS MAY EXIST IS, AT MOST, THAT THE UK WOULD NOT RULE OUT AND IN SOME CASES WOULD PREFER MULTILATERAL INTERVENTION RATHER THAN BILATERAL INTERVENTION IN MARKETS, BUT PERHAPS ONLY IN A TOKEN WAY, WITH THE MAIN CURRENCIES CONCERNED STILL BEARING THE BRUNT, AND NOT IN A WAY TO COUNTER BASIC TRENDS. THE TALK OF AN HMG 5-NATION INTERVENTION PLAN TO STABILIZE THE DOLLAR IN A CURRENCY BAND APPEARS TO BE EITHER A MISINTERPRETATION OR ELSE A HIGHLY CONFIDENTIAL

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INACCURATE ASSESSMENT. BY WAY OF EXAMPLE, ON MARCH 21, JOEL BARNETT, MP, FINANCIAL SECRETARY AND HEALEY'S NUMBER TWO AT HMTREASURY, CITED TO U.S. BANKERS AND TREASURY REP THE FUTILITY OF ATTEMPTING TO COUNTER BASIC ECONOMIC TRENDS BY EXCHANGE MARKET INTERVENTION.

5. ALTHOUGH COUZENS ADAMANTLY REFUSED TO COMMENT ON THE UK'S DESIRED AGENDA FOR THE CALLAGHAN SESSION IN WASHINGTON, SUFFICIENT PUBLIC SPEECHES AND COMMENTS BY THE CHANCELLOR AND THE PRIME MINISTER OVER RECENT WEEKS AS WELL AS MORE GENERALIZED DISCUSSIONS WITH UK CONTACTS LEAD TREASURY REP TO BELIEVE THE FOLLOWING IS PROBABLY A FAIR INDICATION OF UK CONCERNS.

A) GROWTH AND PROBLEMS OF DEMAND MANAGEMENT; I.E., HOW TO GIVE THE INDUSTRIALIZED WORLD A STIMULUS. HERE THE FINGER WOULD BE POINTED AT GERMANY AND JAPAN. UK PROBABLY BELIEVES THAT GERMANY REMAINS THE MAJOR CONCERN.

B) CAPITAL FLOWS; A MORE COMPLICATED ELEMENT INCLUDING HOW TO DEAL WITH THE SURPLUSES OF OPEC, GERMANY AND JAPAN. IT INVOLVES AID AND NORTH/SOUTH QUESTIONS AS WELL AS LONG-

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TERM INVESTMENT AND RECYCLING.

C) ENERGY; EMPHASIS WOULD BE ON THE U.S.

D) TRADE AND MTN; HOPEFULLY SOMETHING COULD BE  
ACHIEVED BEFORE A JULY SUMMIT, BUT THE ISSUE ENCOMPASSES  
MORE. THE BRITISH PROBABLY SEE IT AS AN ONGOING CONCERN  
AND A MEANS OF DETERRING OR REDUCING PROTECTIONIST  
PRESSURES.

E) FOREIGN EXCHANGE CONSIDERATIONS; MEANS OF DIFFER-  
ENTIATING BETWEEN DISORDERLY MARKETS AND UNDERLYING  
TRENDS AS WELL AS POTENTIAL GREATER COORDINATION,  
COOPERATION AND EFFECTIVENESS OF INTERVENTION.

6. LINKED TO THE ABOVE PACKAGE WOULD BE THE LARGER QUES-  
TION OF LEADERSHIP AND CONVINCING THE WORLD PUBLIC THAT  
THE CURRENT ABSENCE OF CONCERTED ACTION (READ "DRIFT")  
IS COMING TO AN END WITH WORLD LEADERS SEEN TO BE TAKING  
ACTION TOGETHER. AS PART OF THIS, THERE WOULD BE AN ELE-  
MENT OF VISIBLE AND CONCERTED ACTION WHEREBY EVEN IF A  
MULTINATIONAL PACKAGE WERE NOT ANNOUNCED ON THE SAME DAY,  
AT LEAST A SERIES OF MEASURES TAKEN BY THE MAJOR COUN-  
TRIES COULD BE LINKED IN THE PUBLIC MIND FOR MAXIMUM EF-  
FECTIVENESS. IN PART, THIS WOULD AIM AT RESTORING CON-  
FIDENCE IN INDUSTRY TO INVEST AND AT ATTEMPTING TO CALM  
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THE FOREIGN EXCHANGE MARKETS. TO SOME EXTENT, IT IS A PUBLIC RELATIONS EXERCISE BUT ONE OF GIVING AS MUCH SUBSTANCE AS POSSIBLE TO WHAT CAN ACTUALLY BE ACHIEVED.

7. IN OTHER WORDS, WE WOULD EXPECT CALLAGHAN'S VIEWS GIVEN TO THE FINANCE HOUSES' ASSOCIATION TO BE ECHOED OR REPEATED (LONDON 4278), BUT POINTING OUT WHERE ACTION SHOULD BE TAKEN, WITH SPECIFIC EXAMPLES OF WHAT MIGHT BE DONE.

8. COUZENS REPORTED HE AND JOHN HUNT OF THE CABINET OFFICE WOULD BE TRAVELLING TO WASHINGTON WEDNESDAY WITH THE PRIME MINISTER.

9. FOR RECENT VIEWS OF HAROLD LEVER AND A RECENT SENIOR BANK OF ENGLAND OFFICIAL ON THE INTERNATIONAL MONETARY SYSTEM, SEE PARAS. 3 AND 4, LONDON 4042.

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## Message Attributes

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